

Rating Rationale
IDMC Private Limited

Rating

Facilities	Amount (Rs. In Million)	Rating ¹	Rating Action
Short Term Bank Facilities	1,000.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,000.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP A4’ to the short-term bank facilities of IDMC Private Limited (IDMC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of IDMC are constrained by weak financial risk profile of the company marked by decline in scale of operations at the end of FY20 (Provisional, refers to 12 months’ period ended mid-Jul, 2020) coupled with highly leveraged capital structure and weak debt service coverage indicators at the end of FY20. The rating is further constrained by working capital intensive nature of operations leading to stressed liquidity position of the company, exposure to volatile interest rates, cyclical nature of the industry and high competition from other construction equipment players, slowdown of construction activity and foreign exchange fluctuating risk. The rating, however, derives strength from moderate track record of operation along with experienced promoters in the related field, strong brand value of XCMG, China along with other companies and sole authorized distributor in Nepal and established market network. Ability of IDMC to achieve revenue growth, improvement in profitability margins and its overall solvency position would be the key rating sensitivities

Impact of Covid-19 on the business of the company

With the outbreak of Coronavirus disease 2019 (COVID-19) recognised as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. However, GoN had provided relaxation in operation of companies dealing in essential items during the lockdown period. Considering the same, business operation of IDMC have been interrupted and sales of IDMC has slowed down which has directly impacted the revenue of the company.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Weak financial risk profile marked by decline in scale of operations in FY20

During FY20, income from sale of construction equipment’s contributed 86.44% of the total income; while income from sale of spare parts, accessories contributed 13.56%. The total income of IDMC declined by 38% during FY20 over FY19 mainly on account of slowdown in economic activities due to the impact of COVID 19. PBILDT of the company declined marginally in FY20 over FY19 due to high

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

PBILDT margins reported by the company. Further, PAT of the company was at similar level of Rs. 2.42 Mn during FY20 as against Rs. 2.09 Mn during FY19.

Highly leveraged capital structure of the company and weak debt service coverage indicators

Company has highly leveraged capital structure as reflected by overall gearing ratio of 6.19x at the end of FY20 as compared to 4.32x at the end of FY19 due to the increase in total debt of the company lead to weak debt service coverage indicators. Total debt increased due to increase in working capital loan on account of high inventory and high collection period. IDMC's Total Debt to Gross Cash Accruals (GCA) increased to 158.98x during FY20 as compared to 138.57x in FY19. Further, interest coverage ratio of the company was low at 1.07x during FY20 as compared to 1.06x in FY19.

Working capital intensive nature of operations leading to stressed liquidity position of the company

Construction equipment dealership business has inherent high working capital intensity due to high inventory holding requirements. The company has to maintain fixed level of inventory for display and high level of inventory to guard against supply shortages as the supply is totally dependent upon imports. Apart from this, the construction equipment manufacturer/ supplier delivers machinery only against the letter of credit from banks. Thus, the business depends heavily on working capital borrowings to fund the inventory and debtors. During FY20, IDMC had inventory holding period of 752 days and average collection period of 682 days. The overall operating cycle during FY20 increased to 1,387 days from 679 days in FY19 due to substantial increase in average collection and inventory holding period. With the ongoing impact of COVID 19 the collection period has been stretched. Accordingly, its average utilization of working capital limit was moderate at around 74.34 % of sanctioned limit during the last 12 months ended on Mid-July, 2020. However, the utilization increased substantially in the last 4-5 months which is more than 90% of the drawing power.

Foreign exchange rate fluctuation risk

IDMC imports machinery from various countries like India and China. The pricing of imported machinery from India is in INR, and China is in USD. Company has not availed any measures to hedge itself from foreign currency payment such as forward exchange contract option which exposes IDMC to the high risk associated with the fluctuation in foreign currency exchange rate.

Cyclical nature of the industry and high competition from other construction equipment players

The construction equipment industry is linked to overall construction activities in the country and is highly impacted by government spending towards construction sector and various policies. There is stiff competition from other construction equipment's dealers in Nepal. There are large number of established international players operating in market. Further, the outbreak of COVID-19 and countrywide lockdown by Government of Nepal (GoN) for more than three months has slowed down construction activities and has impacted construction equipment industry sector due to which the financial performance of the IDMC in terms of the revenue, profitability, and cash flow has been negatively impacted.

Slowdown of construction activity could impact inflow of cash

Construction equipment sales are mostly done through bank financing and slower loan disbursements with payment terms of more than a year could impact sales growth. Further, with slowdown of construction and economic activity in the past years demand of construction equipment has been subdued thereby impacting IDMC’s growth in income. However, unlike regular hire purchase facilities for vehicles other than for construction equipment, there is no regulated provision on the loan-to-value base, which provides some comfort. Overall revenue growth is likely to remain stressed due to the impact of COVID 19 and slower economic activity.

Key Rating Strength

Moderate track record and experienced directors/ promoters in the related field

IDMC started its operation since FY2000 and has three board of directors. Mr. Pravin Dhungana, chairperson, has four decades of experience in construction sector. Mr. Purushottam Subedi, Managing Director, is involved with IDMC since 2009 as managing director and has one decade of experience in different business organization.

Strong brand value of XCMG along with other companies and sole authorised distributor in Nepal

Xuzhou Construction Machinery Group Co., Ltd. (XCMG) is the leader in Chinese construction machinery industry. XCMG has appointed IDMC as a sole distributor of its products in Nepal. The company has presence across major cities/economic hubs of Nepal, either through branches or through authorised showrooms outlets.

Established market network

IDMC has an established marketing network with seven owned showrooms in major cities of Nepal (i.e. Butwal, Laitpur, kathmandu, Pokhara, Biratnagar, Birguj, Bardibas).

About the Company

IDMC was registered as private limited company as on August 10, 2000 to deal in construction equipment’s trading like excavator, crane, roller etc. from various global manufacturers in Nepal. IDMC primarily deals in equipment’s of XCMG, China and is a sole distributor in Nepal.

Brief Financial Performance during last 3 years:

Particulars	FY18	FY19	FY20
	Audited	Audited	Provisional
Income from operations	694	509	310
PBILDIT	60	110	106
PAT	10	2	2
Interest Coverage ratio (times)	1.39	1.06	1.07
Overall gearing (times)	13.06	4.32	6.19

(Rs in Million)

Analyst Contact Mr. Rishi Ram Poudel rishi.poudel@careratingsnepal.com Tel No.: : +977-01-4012629	Group Head Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4012629	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30
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Annexure 1: Details of the Facilities rated

Nature of Facility	Type of Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limits	1,000.00	CARE-NP A4
Total		1,000.00	